



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

SUMMARY OF THE PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM INVESTMENT COMMITTEE

HELD ON
Wednesday, December 15, 2010
2:00 p.m.

The Investment Committee (IC) of the Arizona State Retirement System (ASRS) met at 3300 N. Central Avenue, 14th Floor Conference Room, Phoenix, Arizona 85012. Mr. Tom Connelly, Chair of the IC, called the meeting to order at 2:00 p.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Connelly, Chair
Mr. Christopher Harris, Vice-chair
Mr. Larry Trachtenberg (via telephone for first 15 minutes, then arrived in person)

Absent: Prof. Dennis Hoffman

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the November 3, 2010 Public IC Meetings

Motion: Mr. Christopher Harris moved the minutes of the November 3, 2010 Public IC meetings be adopted. Mr. Lawrence Trachtenberg seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstention, and 1 excused, the motion was approved.

3. Presentation, Discussion, and Appropriate Action Regarding the ASRS Real Estate, Private Equity, and Opportunistic Private Investment (OPI) Plans

Mr. Tom Connelly, Chair, began the meeting by asking Mr. Paul Matson, Director, to begin the discussion of the subject matter. Mr. Matson indicated he would need to leave prior to the end of the IC meeting to attend another meeting relative to legislative matters. Mr. Matson proceeded to briefly introduce and highlight the agenda item. Mr. Matson stated the Plans are best presented and discussed by separating the existing Real Estate (RE), Private Equity (PE) plans, and the new Opportunistic Private Investment (OPI) Plans. Mr. Matson then introduced Mr. Karl Polen, Portfolio Manager of Private Markets, to begin the presentation and discussion of the subject matter.

Mr. Polen began the presentation with a brief overview of the ASRS private markets investments with the following private market target allocations and ranges identified:

Real Estate:	6% (4-8%)
Private Equity:	7% (5-9%)
Opportunistic Private:	0% (0-3%)

Mr. Polen indicated the above allocations are independent; each allocation will be benchmarked and monitored separately.

Mr. Polen began the RE Plan discussion by stating that recommended RE Plan modifications are primarily small, however, noting two meaningful changes: 1) an expanded role of the Real Estate Committee (REC) to review and approve real estate-type OPI investments and 2) a total real estate program performance benchmark change from NPI+100 to the ODCE Index (Open-end Diversified Core Equity).

Mr. Polen stated that the Townsend Group was very active in the ODCE Index research and recommends the ASRS change to the ODCE Index, as it is a more appropriate index reflecting the investable fund universe, which includes fees and impact of leverage. Ms. Micolyn Magee, Principal, the Townsend Group and Ms. Jennifer Young, The Townsend Group, discussed the ODCE Index in detail; Ms. Young added that most Townsend clients are adopting the ODCE Index. Mr. Harris affirmed that he and Prof. Hoffman had reviewed this information at a prior REC meeting and concluded that the proposed benchmark change is appropriate. Mr. Harris asked if both consultants were comfortable with this revision. Ms. Magee & Ms. Young reiterated that they were; Mr. Alan Martin, Partner & Lead Consultant, NEPC, stated that he was "very comfortable" with this change.

Mr. Polen discussed the PE Plan and indicated that the existing PE strategy will not change and will continue to make investments primarily through commingled funds with an emphasis on small and mid-market buyout funds allowing for mezzanine, distressed, infrastructure and venture capital investments. Mr. Polen noted two meaningful changes: 1) an expanded role of the Private Equity Committee (PEC) to review and approve private equity-type OPI investments, and 2) a total private equity program performance benchmark change from Russell 3000+ 3% to Russell 2000, to better reflect the small cap nature of the existing investments in and the strategy defined within the PE Plan.

Mr. Martin pointed out that over shorter timeframes, significant tracking error could exist due in part to the effect of re-pricing lag times in private market valuations relative greater real-time pricing of public securities. Mr. Martin concurred, however, that over longer timeframes the Russell 2000 would be an appropriate benchmark for a private equity program.

Mr. Polen then presented the OPI Plan, summarizing that the philosophy of "opportunistic" investing expressed in the Plan primarily represents tactical investing in situations where mis-pricings and low competition exist. Mr. Polen stated that a successful implementation would require a careful selection of managing partners and negotiation of terms that provide better alignment of interest and allow for an improved level of control of investment entry and exit timing.

Mr. Harris inquired whether consultants had been engaged in the preparation of the OPI Strategic Plan. Mr. Polen stated the ASRS consultants were not asked to review the Plan, though they did review the OPI formulation document prepared by Mr. Matson. Discussion

ensued in which Mr. Harris and other trustees expressed a desire for ASRS consultants to review the Strategic OPI Plan prior to its approval.

Motion: Mr. Trachtenberg moved that the IC recommend to the full Board the approval of the amended Real Estate and Private Equity Strategic Plans and the new Opportunistic Private Investment (OPI) Strategic Plan, and that all three consultants review the OPI Strategic Plan and report their comments to the IC no later than February 2011, at which point the IC may recommend to the Board an amendment to the Plan.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

4. Presentation, Discussion, and Appropriate Action Regarding the ASRS Investment Policy Statement (IPS)

Mr. Dokes presented this agenda item, stating the IPS is a macro level document, which references significant components of the ASRS Investment Program. Mr. Dokes stated that this is a draft document that has been reviewed by Mr. Matson, NEPC, and Meketa, all which concur with its content and format. The objective of this agenda item is to solicit input from the IC with the intent to incorporate IC modifications and recommend to the full Board for approval.

Mr. Connelly commented that a former draft version of the IPS was more detailed and identified what people's jobs would be. Mr. Dokes responded that a prior version was different but was modified given that the creation of a voluminous IPS document containing operational and governance sections (similar to some other public funds' IPS) was unnecessary and redundant as these sections distinctly reside in other ASRS publications.

Mr. Dokes proceeded to give a brief document overview and conversation ensued concerning this document's purpose and importance. Mr. Alan Martin, NEPC, commented that the IMD did a good job of capturing the beliefs of the Board and he supports the approach to eliminate redundancies wherever possible. Furthermore, Mr. Martin suggested including the specific objectives for each ASRS investment goal and questioned the importance of achieving a 100% funded status investment principle. Mr. Connelly suggested that a useful tool might be to incorporate into an e-version document hyper-links to referenced documents. Mr. Dokes concurred and stated he would modify the IPS to include the investment objectives and the hyper-link feature.

Mr. Connelly suggested that at some future meeting, a discussion of how IMD Investment Beliefs translate into action and to what extent the Beliefs are reflected in the composition of the ASRS investment program. Additionally, Mr. Connelly noted that the Investment Principles were dated October 2005 and asked how often they are reviewed. Mr. Dokes stated that the Investment Principles are part of the annual ASRS Strategic Plan review.

Mr. Connelly recommended that ASRS consultants review the IPS and the final product be re-presented at the February 2011 IC meeting. Upon acceptance by the IC, the ASRS IPS document will be recommended to the full Board for approval. This item was not voted on.

5. Presentation, Discussion, and Appropriate Action Regarding the Proposed 2011 IC Meeting Schedule.

Mr. Dokes presented the 2011 Proposed IC meeting schedule noting that the proposed six dates were selected to align with the Board meetings schedule. Mr. Dokes voiced his support for bi-monthly IC meetings. Mr. Connelly asked about the possibility of adding an ad-hoc IC meeting should the need arise. Mr. Dokes agreed and noted that historically the practice has been to add IC dates rather than scheduling more meetings now that would later be canceled.

Mr. Christopher Harris requested that an additional IC meeting be scheduled for an informal IC/IMD luncheon. Mr. Connelly added that this would be a dedicated event, serving as an opportunity for the IMD and IC to further get to know one another better. Tuesday, April 12, 2011 at 12:00 p.m. was added to the IC calendar for this lunch meeting.

Motion:

Mr. Harris moved to accept the Proposed 2011 IC Meeting schedule and Tuesday, April 12, 2011 at 12:00 p.m. for the IMD/IC lunch meeting. Mr. Trachtenberg seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

6. Presentation, Discussion, and Appropriate Action Regarding the Investment Management Division (IMD) House Views.

Mr. Dokes gave a broad overview of the ASRS allocation of monies with respect to Strategic Asset Allocation Policy (SAAP) targets, describing the current policy over-weights in U.S. and non-U.S. equities and under-weights in fixed income. The ASRS opportunistic public market investments of 3% are primarily in tactical fixed-income strategies. Mr. Dokes asked the IMD portfolio managers to briefly discuss key aspects and developments in their respective sectors.

Mr. Underwood confined his remarks to the global economic and capital markets environments. Within this context, he noted that allocation of the U.S. and Non-U.S. equities asset classes in the Fund were essentially neutral, adjusting for a modest surplus in the U.S. equities class destined for reinvestment into the Fund's other asset classes. Mr. Underwood described IMD's intermediate outlook for global equities as generally constructive on fundamentals, although somewhat cautious in the short term following the strong advances in prices during the past four-to-six months. The robust moves of the Small Cap and Mid Cap markets left them with comparatively richer valuations and thus somewhat less compelling compared to Large Cap counterparts.

The IMD equities outlook is poised to move from neutral to positive, principally should: 1.) the business/economic policies emanating from the Administration and Congress become consistent, and fairer; 2.) fiscally-troubled European Union members continue making progress, and; 3.) China proves successful in trimming economic growth to stem inflationary pressures.

Mr. Alaimo, Fixed Income Manager, stated that U.S. Treasury yields have risen over the past several weeks and the bond market is expecting higher yields given the anticipated higher growth rates. Mr. Alaimo also cited a recent J.P. Morgan study regarding demand for new credit, indicating that the credit market is shrinking relative to demand.

Mr. Polen gave a brief synopsis of private markets, mentioning the current situation in real estate as being bifurcated with valuation of trophy assets at very low cap rates but with continuing opportunity in distressed assets. In private equity, Mr. Polen noted the expansion of multiples on new acquisitions having a favorable effect on valuation of current operating company holdings.

7. Presentation, Discussion, and Appropriate Action Regarding Director's Asset Class Committee Update

Mr. Dokes presented a recap of Calendar Year 2010 Asset Class meetings noting there were 39 Asset Class meetings held. Mr. Dokes cited the myriad of the meeting topics and accomplishments.

Mr. Dokes noted that four of the six internally managed portfolios are anticipated to outperform their benchmarks for CY 2010; on an ITD basis, all six portfolios have exceeded their performance benchmarks.

8. Future Agenda Items

Mr. Dokes noted the following as agenda items for future IC meetings:

- Investment Policy Statement (IPS): (Feb 2011 meeting)
- Total Fund Rebalancing: Policy review
- Risk Management System - Update
- Public Market Passive/Active Policy Target Allocation and Ranges
- Investment Roundtable Symposium with select investment academics and practitioners.

Mr. Connelly added the following for possible future discussions:

- Risk adjusted returns- What are they, how are they calculated, etc...

No other Future Agenda Items were presented for consideration

9. Call to the Public

No members of the public requested to speak; the meeting adjourned at 5:28 p.m.

Respectfully submitted,

Regina Landeros-Thomas, Secretary Date

Gary R. Dokes, Chief Investment Officer Date